Notes to the Consolidated Financial Statements (continued)

3. NEW ACCOUNTING PRONOUNCEMENT

In December 2003, the FASB issued Interpretation 46(R), Consolidation of Variable Interest Entities (FIN 46R). FIN 46R addresses the application of Accounting Research Bulletin 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. The company believes that FIN 46R will have no impact on its financial position or results of operations.

4. ACCRUED UNBILLED REVENUES

Receivables include accrued unbilled revenues of $139 million and $142.4 million at December 31, 2003 and 2002, respectively. Nicor Gas accrues revenues for estimated deliveries to customers from the date of their last bill until the balance sheet date.

5. GAS IN STORAGE

Based on the average cost of gas purchased in December 2003 and 2002, the estimated replacement cost of inventory at December 31, 2003 and 2002, exceeded the last-in, first-out cost by $341.6 million and $311.2 million, respectively. During 2002, Nicor Gas liquidated LIFO layers at an average cost of $1.32 per Mcf. The company's average purchase price in 2002 was $2.01 per Mcf higher than the average LIFO liquidation rate. Applying LIFO cost in valuing the liquidation, as opposed to using the average gas purchase rate, decreased 2002 cost of gas by $20.3 million. As the cost of gas including inventory costs is charged to customers without markup, the amount had no impact on net income.

6. SHORT-TERM AND LONG-TERM DEBT

In December 2003, Nicor Gas issued the following First Mortgage Bonds: $50 million due in 2023 at 5.80%, $50 million due in 2032 at 5.90%, and $50 million due in 2033 at 5.90%. Additionally, in December 2003, Nicor Gas redeemed $50 million of 7.375% First Mortgage Bonds due in 2027. In June 2003, Nicor Gas retired $50 million of 5.75% First Mortgage Bonds due in 2003.

In April 2003, Nicor Gas refinanced $50 million of 3% unsecured notes due in April 2003 with $50 million of 1.6% unsecured notes due and paid in October 2003.

The company maintains short-term line of credit agreements with major domestic and foreign banks. At December 31, 2003, these agreements, which serve as backup for the issuance of commercial paper, allowed for borrowings of up to $1 billion through March 2004 and $500 million thereafter through September 2004. Commitment fees paid in advance totaling $2.5 million are being amortized over the respective term of the agreements as interest expense.

The company had $575 million and $315 million of commercial paper outstanding with a weighted average interest rate of 1.1% and 1.6% at December 31, 2003 and 2002, respectively.

Notes to the Consolidated Financial Statements (continued)

Under the company's 2003/2004 short-term line of credit agreements, if (1) Nicor's or Nicor Gas' ratio of consolidated indebtedness to capitalization (including short-term debt) exceeds 65% at the end of the first, second or third fiscal quarter, or 70% at December 31, 2003, or (2) Nicor's or Nicor Gas' twelve-months-ended interest rate coverage ratio is less than 3 to 1 at the end of any fiscal quarter during the term of the credit agreements, banks representing two-thirds of the commitments may declare any amounts due immediately payable and/or terminate the commitments to make advances to the company. The company is in compliance with these covenants at December 31, 2003.

Bank cash balances averaged about $2 million during 2003, which partially compensated for the cost of maintaining accounts and other banking services. Such demand balances may be withdrawn at any time.

First Mortgage Bonds are secured by liens on substantially all property.

Interest expense is reported net of amounts capitalized. The interest expense capitalized for the years ended December 31, 2003, 2002 and 2001 was $.2 million, $.4 million and $.2 million, respectively.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The recorded amount of short-term investments and short-term borrowings approximates fair value because of the short maturity of the instruments. Long-term debt outstanding, including current maturities, is recorded at the principal balance outstanding. The principal balance of Nicor's First Mortgage Bonds outstanding at December 31, 2003 and 2002 was $500 million and $450 million, respectively. Based on quoted market interest rates, the fair value of the company's First Mortgage Bonds outstanding, including current maturities, was approximately $530 million and $480 million at December 31, 2003 and 2002, respectively.

8. INCOME TAXES

The components of income tax expense (benefit) are presented below (in millions):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current | | | |
| Federal | $ (73.0) | $ 27.3 | $ 33.0 |
| State | (13.7) | 6.1 | 10.1 |
| | (86.7) | 33.4 | 43.1 |
| Deferred | | | |
| Federal | 113.5 | 26.8 | 15.7 |
| State | 23.2 | 5.5 | .3 |
| | 136.7 | 32.3 | 16.0 |
| Amortization of investment tax credits, net | (2.0) | (1.4) | (2.1) |
| Income tax expense (benefit), net | $ 48.0 | $ 64.3 | $ 57.0 |

Notes to the Consolidated Financial Statements (continued)

The temporary differences which gave rise to the net deferred tax liability at December 31, 2003 and 2002, were as follows (in millions):

| | 2003 | 2002 |
|---|---|---|
| Deferred tax liabilities | | |
| Property, plant and equipment | $ 399.0 | $ 236.0 |
| Employee benefits | 32.6 | 37.6 |
| Other | 24.3 | 20.1 |
| | 455.9 | 293.7 |
| Deferred tax assets | | |
| Unamortized investment tax credits | 22.8 | 24.0 |
| Regulatory income tax liability | 10.2 | 15.2 |
| Accrued mercury-related costs | 8.7 | 9.0 |
| Alternative minimum tax credits | 17.7 | - |
| Other | 23.9 | 23.4 |
| | 83.3 | 71.6 |
| Net deferred tax liability | $ 372.6 | $ 222.1 |

The effective combined federal and state income tax rate was 37 percent in 2003, 2002 and 2001. Differences between federal income taxes computed using the statutory rate and reported income tax expense are shown below (in millions):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Federal income taxes using statutory rate | $ 45.9 | $ 60.7 | $ 54.5 |
| State income taxes, net | 6.6 | 8.3 | 6.8 |
| Tax credits | (2.3) | (2.3) | (2.3) |
| Regulatory income tax liability | (2.1) | (2.0) | (2.1) |
| Other, net | (.1) | (.4) | .1 |
| Income tax expense (benefit), net | $ 48.0 | $ 64.3 | $ 57.0 |

In the fourth quarter of 2003, Nicor Gas received an income tax refund of approximately $100 million attributable to a tax loss carryback associated with a change in tax accounting methods, subject to future Internal Revenue Service review and approval.

9. POSTRETIREMENT BENEFITS

Nicor Gas maintains a noncontributory defined benefit pension plan covering substantially all employees hired prior to 1998. Pension benefits are based on years of service and highest average salary for management employees and job level for unionized employees. The benefit obligation related to collectively bargained benefits considers the company's past practice of regular benefit increases to reflect current wages. Nicor Gas also provides health care and life insurance benefits to eligible retired employees under a plan that includes a limit on the company's share of cost for most future retirees. The company's accrued postretirement benefit costs have historically been considered in rate proceedings.

Notes to the Consolidated Financial Statements (continued)

The following tables set forth the changes in the plans' benefit obligations and assets, and reconciles the October 1 funded status of the plans to the prepaid (accrued) benefit cost recorded on the balance sheet at December 31 (in millions):

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Change in benefit obligation | | | | |
| Benefit obligation at beginning of period | $ 252.0 | $ 237.5 | $ 169.3 | $ 141.9 |
| Service cost | 7.4 | 7.2 | 2.0 | 1.5 |
| Interest cost | 16.3 | 16.5 | 11.1 | 9.9 |
| Actuarial loss | 21.3 | 14.0 | 27.7 | 29.2 |
| Participant contributions | - | - | .7 | 1.3 |
| Plan amendments | - | .3 | (26.7) | - |
| Benefits paid | (23.9) | (23.5) | (10.5) | (14.5) |
| Benefit obligation at end of period | 273.1 | 252.0 | 173.6 | 169.3 |
| Change in plan assets | | | | |
| Fair value of plan assets at beginning of period | 337.9 | 399.7 | 13.1 | 19.7 |
| Actual gain (loss) on plan assets | 69.6 | (38.3) | 2.2 | (1.3) |
| Employer contributions | - | - | 6.2 | 7.9 |
| Participant contributions | - | - | .7 | 1.3 |
| Benefits paid | (23.9) | (23.5) | (10.5) | (14.5) |
| Fair value of plan assets at end of period | 383.6 | 337.9 | 11.7 | 13.1 |
| Funded status | 110.5 | 85.9 | (161.9) | (156.2) |
| Unrecognized net actuarial loss | 62.3 | 86.3 | 84.4 | 60.7 |
| Unrecognized prior service cost | 4.3 | 4.9 | - | - |
| Unrecognized transition obligation | - | - | 1.2 | 30.9 |
| Other | - | - | (1.5) | (3.3) |
| Recognized prepaid (accrued) benefit cost | $ 177.1 | $ 177.1 | $ (77.8) | $ (67.9) |

The accumulated benefit obligation for pension benefits, a measure which excludes the effect of salary and wage increases, was $233.1 million and $213 million at October 1, 2003 and 2002, respectively. The accrued benefit cost for health care and life insurance benefits is classified as an other noncurrent liability. In 2003, the company amended the retiree health care benefit plan to improve consistency of benefits among participant groups and reduce the company's share of plan costs effective January 1, 2004.

Notes to the Consolidated Financial Statements (continued)

About one-fourth of the net periodic benefit cost or credit related to these plans has been capitalized as a cost of constructing gas distribution facilities and the remainder is included in gas distribution operating and maintenance expense. Net periodic benefit cost (credit) included the following components (in millions):

| | Pension benefits | | | Other benefits | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Service cost | $ 7.4 | $ 7.2 | $ 6.5 | $ 2.0 | $ 1.5 | $ 1.2 |
| Interest cost | 16.3 | 16.5 | 16.4 | 11.1 | 9.9 | 8.4 |
| Expected return on plan assets | (28.7) | (36.0) | (44.3) | (1.2) | (1.8) | (2.1) |
| Recognized net actuarial (gain) loss | 4.3 | - | (7.4) | 2.9 | 1.0 | - |
| Amortization of unrecognized transition (asset) obligation | - | (1.0) | (3.8) | 3.1 | 3.1 | 3.1 |
| Amortization of prior service cost | .7 | .5 | .6 | - | - | - |
| Net periodic benefit cost (credit) | $ - | $(12.8) | $(32.0) | $ 17.9 | $ 13.7 | $ 10.6 |

Assumptions used to determine benefit obligations at October 1 included the following:

| | Pension benefits | | Other benefits | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Discount rate | 6.00% | 6.75% | 6.00% | 6.75% |
| Rate of compensation increase | 4.00 | 4.00 | 4.00 | 4.00 |

Assumptions used to determine net periodic benefit cost for the years ended December 31 included the following:

| | Pension benefits | | | Other benefits | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Discount rate | 6.75% | 7.25% | 7.75% | 6.75% | 7.25% | 7.75% |
| Expected return on assets | 8.75 | 9.25 | 9.25 | 8.75 | 9.25 | 9.25 |
| Rate of compensation increase | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |

Nicor Gas establishes its expected return-on-asset assumption by considering projected 20-year returns for each investment asset category. Projected returns are calculated by an independent firm via a probability-based model. The company has elected to apply this assumption to the fair value of plan assets, rather than to a rolling-average fair value, in calculating the expected return on plan assets component of net periodic benefit cost.

Assumptions used to determine other benefit obligations at October 1 were as follows:

| | 2003 | 2002 |
|---|---|---|
| Health care cost trend rate | 9.5% | 11.0% |
| Rate to which the cost trend rate is assumed to decline (the ultimate rate) | 5.0% | 5.0% |
| Years to reach ultimate rate | 4 | 4 |

Notes to the Consolidated Financial Statements (continued)

Assumptions used to determine other net benefit cost for the years ended December 31 were as follows:

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Health care cost trend rate - Pre-65 | 11.0% | 10.0% | 6.5% |
| Health care cost trend rate - Post-65 | 11.0% | 7.5% | 5.0% |
| Rate to which the cost trend rate is assumed to decline (the ultimate rate) | 5.0% | 5.0% | 5.0% |
| Years to reach ultimate rate | 4 | 4 | 3 |

Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects (in millions):

| | One-percent | |
|---|---|---|
| | Increase | Decrease |
| Effect on total of service and interest cost components | $ 1.4 | $ (1.2) |
| Effect on benefit obligation | 18.8 | (15.8) |

The recently enacted Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) provides a prescription drug benefit as well as a federal subsidy to sponsors of certain retiree health care benefit plans. As allowed by FASB Staff Position No. 106-1, Nicor Gas has elected to defer reflecting the effects of the Act on the accumulated benefit obligation and net periodic postretirement benefit cost in these financial statements and accompanying notes. The company's deferral election expires upon the occurrence of any event that triggers a required remeasurement of plan assets or obligations, or upon the issuance of specific authoritative guidance on the accounting for the federal subsidy. Such guidance is pending and when issued could require the company to adjust previously reported information.

The company's investment objective relating to pension plan assets is to have a high probability of meeting its obligations without additional cash contributions. The company's investment strategy is to maintain an asset mix near its target asset allocation and to rebalance the portfolio monthly if the actual allocation deviates from the target by two or more percentage points. The following table sets forth the target allocation and actual percentage of plan assets by asset category:

| | Target Allocation | Percentage of Plan Assets at October 1 | |
|---|---|---|---|
| Asset Category | 2004 | 2003 | 2002 |
| Equity securities | 70% | 70% | 69% |
| Debt securities | 30 | 29 | 31 |
| Real estate and other | - | 1 | - |
| Total | 100% | 100% | 100% |

The company does not expect to contribute to its pension plan in 2004 and expects to contribute about $10 million to its other postretirement benefit plan in 2004.

Notes to the Consolidated Financial Statements (continued)

Nicor Gas also has a separate unfunded supplemental retirement plan. The supplemental retirement plan is noncontributory with defined benefits and plan costs of $.8 million, $.9 million and $.8 million in 2003, 2002 and 2001, respectively. The benefit obligation of the plan was $6.6 million and $6.2 million at December 31, 2003 and 2002, respectively.

The company also sponsors defined contribution plans covering substantially all domestic employees. These plans provide for employer matching contributions. The total cost of these plans was $4.4 million, $4.5 million and $3.9 million in 2003, 2002 and 2001, respectively.

10. DIVIDEND AND OTHER RESTRICTIONS

Nicor Gas is restricted by regulation in the amount it can dividend or loan to affiliates. Dividends are allowed only to the extent of Nicor Gas' retained earnings balance. The balance of cash advances from Nicor Gas to an affiliate at any time shall not exceed the unused balance of funds actually available to that affiliate under its existing bank credit agreements or its commercial paper facilities with unaffiliated third parties.

11. OTHER INCOME (EXPENSE), NET

Other income (expense), net included the following (in millions):

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Performance-based rate plan | $ - | $ (4.1) | $ (14.8) |
| Interest income | 1.5 | 2.7 | 4.3 |
| Gains on sale of property, plant and equipment | .4 | 4.1 | 3.9 |
| Other income | .9 | .5 | 2.7 |
| Other expense | (.8) | (.5) | (.4) |
| | $ 2.0 | $ 2.7 | $ (4.3) |

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, under the terms of an agreement approved by the ICC, Nicor Gas enters into transactions with Nicor and its other wholly owned subsidiaries for the use of facilities and services. The charges for these transactions are cost-based, except where the charging party has a prevailing price for which the facility or service is provided to the general public. In addition, Nicor charges Nicor Gas and its other wholly owned subsidiaries for the cost of corporate overheads. For the years ended December 31, 2003, 2002 and 2001 Nicor Gas had net charges to affiliates of $4.7 million, $2.1 million and $6.4 million, respectively.

Under the terms of an ICC order, Nicor Gas routinely enters into transactions with Nicor Enerchange, a wholesale natural gas marketing subsidiary of Nicor, for the purchase and sale of natural gas, transportation and storage services. For the years ended December 31, 2003, 2002 and 2001, net charges to (from) Nicor Enerchange were $.1 million, $12.5 million and $(6.8) million, respectively.

Horizon Pipeline is a 50/50 joint venture between Nicor and Natural Gas Pipeline Company of America (NGPL) that operates, since mid-2002, a FERC regulated natural gas pipeline in northern Illinois. Horizon Pipeline charged Nicor Gas $10.4 million and $6.6 million for the years ended December 31, 2003 and 2002, respectively, for natural gas transportation under rates that have been accepted by FERC.

Notes to the Consolidated Financial Statements (continued)

Nicor Gas purchases engineering and corrosion services from Nicor Technologies, a subsidiary of Nicor. Nicor Gas was charged $4.4 million and $4.6 million for these services for the years ended December 31, 2003 and 2002, respectively.

13. GUARANTEES

Nicor Gas had outstanding letters of credit and surety bonds totaling approximately $5 million at December 31, 2003 and 2002. The letters of credit and surety bonds typically act as a guarantee of payment or performance to certain third parties in accordance with specified terms and conditions.

14. CONTRACTUAL OBLIGATIONS

As of December 31, 2003, Nicor Gas had contractual obligations with payments due as follows (in millions):

| | Payments due by year | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | After 2008 | Total |
| Purchase obligations | $602.6 | $257.6 | $114.8 | $ 83.0 | $ 79.2 | $ 44.2 | $ 1,181.4 |
| Long-term debt | - | - | 50.0 | - | 75.0 | 375.0 | 500.0 |
| Operating leases | .7 | .5 | .4 | .4 | .3 | .1 | 2.4 |
| Other long-term obligations | .5 | .5 | .5 | .5 | .5 | 3.1 | 5.6 |
| | $603.8 | $258.6 | $165.7 | $ 83.9 | $155.0 | $422.4 | $ 1,689.4 |

Purchase obligations consist primarily of natural gas transportation and storage contracts, and natural gas purchase agreements. Purchase obligations also include obligations to purchase natural gas at future market prices, calculated using December 31, 2003 NYMEX futures prices.

Operating leases are primarily for office space and equipment. Rental expense under operating leases was $1.3 million, $2.3 million and $1.5 million in 2003, 2002 and 2001, respectively. Other long-term obligations consist primarily of redeemable preferred stock.

15. CONTINGENCIES

The following contingencies of Nicor Gas are in various stages of investigation or disposition. Although in some cases the company is unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require the company to take charges against, or will result in reductions in, future earnings. It is the opinion of management that the resolution of these contingencies, either individually or in aggregate, could be material to earnings in a particular period but is not expected to have a material adverse impact on Nicor Gas' liquidity or financial condition.

Performance-Based Rate (PBR) Plan. Nicor Gas' PBR plan for natural gas costs went into effect in 2000 and was terminated by the company effective January 1, 2003. Under the PBR plan, Nicor Gas' total gas supply costs were compared to a market-sensitive benchmark. Savings and losses relative to the benchmark were determined annually and shared equally with sales customers. The PBR plan is currently under Illinois Commerce Commission (ICC) review.

Notes to the Consolidated Financial Statements (continued)

There are allegations that the company acted improperly in connection with the PBR plan, and the ICC and others are reviewing these allegations. On June 27, 2002 the Citizens Utility Board (CUB) filed a motion to reopen the record in the ICC's proceedings to review the PBR plan (the ICC Proceedings). As a result of the motion to reopen, Nicor Gas, the Cook County State's Attorney Office (CCSAO), the staff of the ICC and CUB entered into a stipulation providing for additional discovery. The Illinois Attorney General's Office has also intervened in this matter. In addition, the Illinois Attorney General's Office issued Civil Investigation Demands (CIDs) to CUB and the ICC staff. The CIDs ordered that CUB and the ICC staff produce all documents relating to any claims that Nicor Gas may have presented, or caused to be presented, false information related to its PBR plan. Parties who were plaintiffs in a dismissed class action proceeding against the company could potentially intervene in these proceedings. The company has committed to cooperate fully in the reviews of the PBR plan.

In response to these allegations, on July 18, 2002, the Nicor Board of Directors appointed a special committee of independent, non-management directors to conduct an inquiry into issues surrounding natural gas purchases, sales, transportation, storage and such other matters as may come to the attention of the special committee in the course of its investigation. The special committee presented the report of its counsel (Report) to Nicor's Board of Directors on October 28, 2002.

In response, the Nicor Board of Directors directed the company's management to, among other things, make appropriate adjustments to account for, and fully address, the adverse consequences to ratepayers of the items noted in the Report, and conduct a detailed study of the adequacy of internal accounting and regulatory controls. The adjustments were made in financial statements resulting in a \$24.1 million liability at December 31, 2003. Included in such \$24.1 million adjustments is a \$4.1 million loss contingency. In addition, Nicor Gas estimates that there is \$26.9 million due to the company from the 2002 PBR plan year, which has not been recognized in the financial statements due to uncertainties surrounding the PBR plan. The net of these items results in a \$2.8 million reimbursement the company is seeking as of December 31, 2003, pending resolution of the proceedings discussed below. The company has taken steps throughout 2003 to correct the weaknesses and deficiencies identified in the detailed study of the adequacy of internal controls.

Pursuant to the agreement of all parties, including the company, the ICC re-opened the 1999 and 2000 purchased gas adjustment filings for review of certain transactions related to the PBR plan and consolidated the reviews of the 1999-2002 purchased gas adjustment filings with the PBR plan review.

On February 5, 2003, the CCSAO and CUB filed a motion for \$27 million in sanctions against the company in the ICC Proceedings. In that motion, CCSAO and CUB alleged that Nicor Gas' responses to certain CUB data requests were false. Also on February 5, 2003, CUB stated in a press release that, in addition to \$27 million in sanctions, it would seek additional refunds to consumers. On March 5, 2003, the ICC staff filed a response brief in support of CUB's motion for sanctions. On May 1, 2003, the Administrative Law Judges issued a ruling denying CUB and CCSAO's motion for sanctions. CUB has filed an appeal of the motion for sanctions with the ICC, and the ICC has indicated that it will not rule on the appeal until the final disposition of the ICC proceedings. It is not possible to determine how the ICC will resolve the claims of CCSAO, CUB or other parties to the ICC Proceedings.

Notes to the Consolidated Financial Statements (continued)

In November 2003, the ICC staff, CUB, CCSAO and the Illinois Attorney General's Office (IAGO) filed their respective direct testimony in the ICC Proceedings. The ICC staff is seeking refunds to customers of approximately $108 million and CUB and CCSAO were jointly seeking refunds to customers of approximately $143 million. The IAGO direct testimony alleges adjustments in a range from $145 million to $190 million. The IAGO testimony as filed is presently unclear as to the amount which IAGO seeks to have refunded to customers. On February 27, 2004 the above referenced intervenors filed their rebuttal testimony in the ICC Proceedings. In such rebuttal testimony, CUB and CCSAO amended the alleged amount to be refunded to customers from approximately $143 million to $190 million. Nicor Gas filed rebuttal testimony in January 2004, which is consistent with the findings of the special committee Report and, as noted above, seeks a reimbursement to Nicor Gas of approximately $2.8 million.

Nicor Gas is unable to predict the outcome of any of the foregoing reviews or the company's potential exposure thereunder. Because the PBR plan and historical gas costs are still under ICC review, the final outcome could be materially different than the amounts reflected in the company's financial statements as of December 31, 2003.

SEC and U.S. Attorney Inquiries. In 2002, the staff of the United States Securities and Exchange Commission (SEC) informed the company that the SEC is conducting a formal inquiry regarding the PBR plan. A representative of the Office of the United States Attorney for the Northern District of Illinois has notified the company that that office is conducting an inquiry on the same matter that the SEC is investigating, and a grand jury is also reviewing this matter. Nicor Gas is unable to predict the outcome of these inquiries or Nicor Gas' potential exposure related thereto and has not recorded a liability associated with the outcome of this contingency.

Mercury. Nicor Gas has incurred, and expects to continue to incur, costs related to its historical use of mercury in various kinds of company equipment.

Nicor Gas is a defendant in several private lawsuits, all in the Circuit Courts of Cook and DuPage Counties, Illinois, claiming a variety of unquantified damages (including bodily injury, property and punitive damages) allegedly caused by mercury-containing regulators. Under the terms of a class action settlement agreement, Nicor Gas will continue, until 2006, to provide medical screening to persons exposed to mercury from its equipment, and will use its best efforts to replace any remaining inside residential mercury regulators by 2005. The class action settlement permitted class members to "opt out" of the settlement and pursue their claims individually. Nicor is currently defending claims brought by 28 households.

As of December 31, 2003, Nicor Gas had remaining an estimated liability of $21.9 million, representing management's best estimate of future costs, including potential liabilities relating to remaining lawsuits, based on an evaluation of currently available information. Actual costs may vary from this estimate. The company will continue to reassess its estimated obligation and will record any necessary adjustment, which could be material to operating results in the period recorded.

Nicor Gas continues to pursue recovery from insurers and independent contractors that had performed work for the company, but believes that it has now collected the majority of such recoveries. When received, these recoveries are recorded as a reduction to gas distribution operating expense. Nicor Gas recovered approximately $18 million and $20 million of pretax mercury-related costs, net of legal fees, from insurers and independent contractors in 2003 and 2002, respectively.

The final disposition of these mercury-related matters is not expected to have a material adverse impact on the company's financial condition.

Notes to the Consolidated Financial Statements (continued)

Manufactured Gas Plant Sites. Manufactured gas plants were used in the 1800's and early to mid 1900's to produce manufactured gas from coal, creating a coal tar byproduct. Current environmental laws may require the cleanup of coal tar at certain former manufactured gas plant sites.

To date, Nicor Gas has identified about 40 properties for which it may, in part, be responsible. Most of these properties are not presently owned by the company. Information regarding preliminary site reviews has been presented to the Illinois Environmental Protection Agency (IEPA) for certain properties. More detailed investigations and remedial activities are complete, in progress or planned at many of these sites. The results of the detailed site-by-site investigations determine the extent additional remediation is necessary and provide a basis for estimating additional future costs which, based on industry experience, could be significant. In accordance with ICC authorization, the company is and has been recovering these costs from its customers, subject to annual prudence reviews.

In December 2001, a purported class action lawsuit was filed against Exelon Corporation, Commonwealth Edison Company and Nicor Gas in the Circuit Court of Cook County alleging, among other things, that the ongoing cleanup of a former manufactured gas plant site in Oak Park, Illinois is inadequate. Since then, additional lawsuits have been filed related to this same former manufactured gas plant site. These lawsuits seek, in part, unspecified damages for property damage, nuisance, and various personal injuries that allegedly resulted from exposure to contaminants allegedly emanating from the site, and punitive damages. Management cannot predict the outcome of this litigation or the company's potential exposure thereto and has not recorded a liability associated with this contingency.

In April 2002, Nicor Gas was named as a defendant, together with Commonwealth Edison Company, in a lawsuit brought by the Metropolitan Water Reclamation District of Greater Chicago (the MWRDGC) under the Federal Comprehensive Environmental Response, Compensation and Liability Act seeking recovery of past and future remediation costs and a declaration of the level of appropriate cleanup for a former manufactured gas plant site in Skokie, Illinois now owned by the MWRDGC. In January 2003, the suit was amended to include a claim under the Federal Resource Conservation and Recovery Act. The suit was filed in the United States District Court for the Northern District of Illinois. Management cannot predict the outcome of this litigation or the company's potential exposure thereto and has not recorded a liability associated with this contingency.

Since costs and recoveries relating to the cleanup of manufactured gas plant sites are passed directly through to customers in accordance with ICC regulations, subject to an annual ICC prudence review, the final disposition of manufactured gas plant matters is not expected to have a material impact on the company's financial condition or results of operations.

Other. In addition to the matters set forth above, the company is involved in legal or administrative proceedings before various courts and agencies with respect to general claims, rates, taxes, environmental, and other matters. Although unable to determine the ultimate outcome of these other contingencies, management believes that it has recorded appropriate liabilities when reasonably estimable.

Notes to the Consolidated Financial Statements (concluded)

16. QUARTERLY RESULTS (UNAUDITED)

Summarized quarterly financial data is presented below (in millions).

| | Quarter ended | | | |
|---|---|---|---|---|
| | Mar. 31 | June 30 | Sept. 30 | Dec. 31 |
| 2003 | | | | |
| Operating revenues | $ 1,096.7 | $ 379.5 | $ 223.4 | $ 652.0 |
| Operating income | 50.4 | 26.4 | 6.2 | 35.5 |
| Net income (loss) | 41.5 | 18.5 | (2.8) | 25.8 |
| 2002 | | | | |
| Operating revenues | $ 516.5 | $ 282.0 | $ 172.7 | $ 623.6 |
| Operating income | 38.2 | 30.1 | 34.0 | 41.3 |
| Net income | 32.6 | 20.9 | 25.8 | 29.8 |

Effective January 1, 2003, Nicor Gas began using the straight-line method for allocating annual depreciation to interim periods. Nicor Gas' 2002 results include depreciation allocated based upon the level of weather-normalized gas deliveries. While this change had a significant impact on quarterly results, it has no impact on depreciation for the full year. Had 2002 depreciation been allocated on a straight-line basis, it is estimated that depreciation expense would have been lower by approximately $22 million and $7 million in the first and fourth quarters of 2002, respectively, and higher by approximately $12 million and $17 million in the second and third quarters of 2002, respectively.

The fourth quarter of 2002 included the positive impact of a $9 million pretax mercury reserve adjustment and the negative impact of establishing a $4.1 million pretax loss contingency reserve related to the PBR plan review.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On May 3, 2002, Nicor Gas filed a Form 8-K announcing that its Board of Directors dismissed Arthur Andersen LLP and engaged Deloitte & Touche LLP as its new independent auditors. This disclosure has been previously reported.

## Item 9A. Controls and Procedures

Attached as exhibits 31.1 and 31.2 to this Annual Report are certifications of the company's CEO and the CFO required in accord with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certifications"). This portion of our Annual Report on Form 10-K discloses the results of our evaluation of our disclosure controls and procedures as of December 31, 2003 referred to in paragraphs (4) and (5) of the Section 302 Certification and should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

In July 2002, in response to allegations that Nicor Gas acted improperly in connection with its performance-based rate plan for natural gas costs, the Nicor Board of Directors appointed a special committee of independent, non-management directors to conduct an inquiry into issues surrounding natural gas purchases, sales, transportation and storage, and certain other matters. In addition, following up on the work of the committee, the Nicor Board of Directors later directed Nicor's management to, among other things, (a) undertake a reaudit of the Nicor and Nicor Gas financial statements for the years 1999 through 2001 and a review of subsequent quarterly periods, (b) amend any filings with the SEC as necessary, and (c) conduct a detailed study of the adequacy of internal accounting and regulatory controls. See Notes to Consolidated Financial Statements - Contingencies.

To assist management in assessing the control environment and related issues associated with Nicor's natural gas supply, transport, storage and marketing activities, including Nicor Gas Hub administration and Nicor Enerchange trading ("gas supply activities"), Nicor retained a consulting firm in the fourth quarter of 2002 with experience in internal controls and the energy industry that is not and has not been the company's external auditor.

Through this review of gas supply activities ("gas supply review"), it was observed that:

- Although key controls have been designed to facilitate the complete and accurate capture and processing of gas supply activities, many control activities are not standardized. As such, the reliability and effectiveness of these control processes are dependent on interpretation and execution by business unit personnel.
- Existing processes provide limited oversight and monitoring to ensure that transaction activities and control procedures are performed reliably and consistent with management expectations.
- As a result, gas supply activities are not adequately documented, are overly dependent on people, and are not supported by formal training or communication of controls.

In light of the foregoing, and reflecting the consultant's work related to gas supply activities, management concluded that the following steps related to gas supply activities should be undertaken:

- Enhance the effectiveness of corporate governance and independent oversight of gas supply activities by creating a formal risk management function and expanding senior management oversight through the company's risk management committee.
- Enhance senior management monitoring and oversight of gas supply activities by creating formal reporting frameworks designed to effectively communicate performance, existing risk profile/position, and compliance with policies/procedures.

Item 9A. Controls and Procedures (continued)

- Enhance the communication of senior management's expectations regarding objectives, risk tolerances, and business practices in connection with gas supply activities by creating codified and standardized policies and procedures for these activities.
- Given the high degree of regulatory oversight and review over gas supply activities, develop formal documentation and retention standards for key decision-making and transaction activities that are subject to regulatory review.
- For each business unit responsible for gas supply contract negotiation and execution, establish a dedicated contract administration function as well as a contract compliance program.
- Develop formal contracting standards, including practices and procedures surrounding contract execution, contract review and approval and contract modification.

In May 2002, the company engaged new accountants, Deloitte & Touche LLP ("D&T"), who were asked in October 2002 to audit the company's 1999, 2000 and 2001 restated financial statements in addition to its audit of the company's 2002 financial statements. In connection with the completion of its audit of, and the issuance of an unqualified report on Nicor's and Nicor Gas' restated financial statements for the years ended December 31, 1999, 2000 and 2001, D&T issued a letter dated February 28, 2003 (the "D&T Letter"), in which it identified to management and the Audit Committee of the Board of Directors certain deficiencies that existed in the design or operation of Nicor Gas' internal accounting controls which, considered collectively, constituted a material weakness in Nicor Gas' internal controls pursuant to standards established by the American Institute of Certified Public Accountants. Such deficiencies at Nicor Gas' regulated gas purchasing operations included significant weaknesses in the design of controls surrounding execution, monitoring and accounting for gas commodity, transportation, storage and related contracts due, in part, to the lack of a centralized independent back office for these activities. D&T also concluded that these weaknesses had resulted in errors that affected gas purchase costs, inventory, regulatory assets and liabilities, and results of the performance-based rate plan, and led to a restatement of Nicor's and Nicor Gas' financial statements. D&T made the following recommendations to Nicor and Nicor Gas with respect to these deficiencies:

- Establish a centralized, independent back office function for gas supply activities, staffed with an adequate number of appropriately skilled individuals.
- Charge the gas supply back office function with responsibility for, among other matters, contract analysis to determine correct accounting treatment, ensuring that contract terms are followed, overseeing the contract approval process and contract administration.

The company carried out an evaluation under the supervision and with the participation of the company's management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K (the "Evaluation").

During the course of the Evaluation, the company's principal executive officer and principal financial officer took note of, and considered as part of the company's disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934), additional procedures performed and controls instituted by the company subsequent to the receipt of the D&T Letter (the "Additional Procedures") to supplement its internal controls in order to mitigate the effect of the weaknesses and deficiencies identified in the gas supply review and the D&T Letter and to prevent misstatements or omissions in its consolidated financial statements resulting from such factors. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the Evaluation, the company's

Item 9A. Controls and Procedures (concluded)

Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures, as of the end of the period covered by this Annual Report on Form 10-K, including the Additional Procedures, were effective at the reasonable assurance level to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Management has considered the matters referred to above, D&T's recommendations with respect thereto and the gas supply review in connection with management's general evaluation of the company's internal controls in particular and its disclosure controls and procedures generally. The company has accepted the recommendations identified in the D&T Letter and in the gas supply review. The company's management assigned a high priority to the short-term and long-term correction of the internal control weaknesses and deficiencies identified by D&T and in the gas supply review, and has implemented changes to the company's policies, procedures, systems and personnel to address these issues. The company's management has implemented the following changes based upon the D&T Letter and the gas supply review:

- The company has dedicated additional internal audit and external resources to the assessment of the internal controls of the company.
- New policies with respect to the approval and authorization of all transactions related to gas supply activities and affiliated transactions have been developed and implemented.
- Gas supply purchasing testing is being regularly performed to verify that prices are consistent with market rates.
- Personnel in gas supply accounting now report directly to the company's Controller.
- The company's Risk Management Committee has increased its oversight level, and a new Chief Risk Officer position has been established.
- Substantial effort has been put forth on documentation and implementation of appropriate processes, procedures and controls.
- The company has implemented, and will continue to implement, controls designed to ensure compliance with regulatory rules and mandates.
- New contract administration processes have been implemented to provide a more effective method of contract administration.

The steps taken throughout 2003 to correct the weaknesses and deficiencies identified in the gas supply review and the D&T Letter constitute significant changes in internal controls over financial reporting in the fourth quarter of 2003. The company will continue to review and implement enhancements to improve the effectiveness of its disclosure controls and procedures and will take further actions as dictated by such continuing reviews.

PART III

## Item 14. Principal Accountant Fees and Services

The following is a summary of the fees billed to Nicor Gas by Deloitte & Touche LLP for professional services rendered for the years ended December 31, 2003 and 2002 (in millions):

| Fee Category | 2003 Fees | 2002 Fees |
|---|---|---|
| Audit Fees | $ .5 | $ 1.4 |
| Audit-Related Fees | .1 | - |
| Tax Fees | - | - |
| All Other Fees | - | - |
| Total Fees | $ .6 | $ 1.4 |

Audit Fees. Consists of fees for professional services rendered for the audit of Nicor Gas' financial statements, review of the interim financial statements included in quarterly reports, and services in connection with statutory and regulatory filings and preparation of comfort letters for debt issues.

Audit-Related Fees. Consists of fees for assurance and related services that are reasonably related to the performance of the audit of Nicor Gas' financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits and consultations concerning financial accounting and reporting standards.

Tax Fees. None.

All Other Fees. None.

Audit Committee Pre-Approval Policies and Procedures

In accordance with the Sarbanes-Oxley Act of 2002, the Audit Committee's policy is to pre-approve all audit and non-audit services provided by Deloitte & Touche LLP. On an ongoing basis, management of Nicor Gas defines and communicates specific projects and categories of service for which the advance approval of the Audit Committee is requested. The Audit Committee reviews these requests and advises management if the Committee approves the engagement of Deloitte & Touche LLP. On a periodic basis, Nicor Gas' management reports to the Audit Committee the actual spending for such projects and services compared to the approved amounts. In 2003, all services provided by Deloitte & Touche LLP were approved in advance by the Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1) Financial Statements:

See Item 8, Financial Statements and Supplementary Data, on page 19 filed herewith, for a list of financial statements.

2) Financial Statement Schedules:

| Schedule Number | | Page |
|---|---|---|
| | Independent Auditors' Report | 20 |
| II | Valuation and Qualifying Accounts | 46 |

Schedules other than those listed are omitted because they are not applicable.

3) Exhibits Filed:

See Exhibit Index beginning on page 49 filed herewith.

(b) On November 21, 2003, Nicor Gas filed a Form 8-K, under Item 5, regarding a press release dated November 21, 2003 announcing key executive appointments.

On December 2, 2003, Nicor Gas filed a Form 8-K, under Item 5, regarding the company's Registration Statement on Form S-3 (Registration No.333-65486).

On December 5, 2003, Nicor Gas filed a Form 8-K, under Items 5 and 7, regarding a Prospectus Supplement dated December 4, 2003.

On December 9, 2003, Nicor Gas filed a Form 8-K, under Item 7, regarding the company's Registration Statement on Form S-3 (Registration No.333-65486).

Schedule II

VALUATION AND QUALIFYING ACCOUNTS
(millions)

| Description | Balance at beginning of period | Additions: Charged to costs and expenses | Additions: Charged to other accounts | Deductions | Balance at end of period |
|---|---|---|---|---|---|
| 2003 | | | | | |
| Allowance for uncollectible accounts receivable | $ 14.4 | $ 29.8 | $ - | $ 24.8 (a) | $ 19.4 |
| Accrued mercury-related costs | 23.4 | - | - | 1.5 (b) | 21.9 |
| 2002 | | | | | |
| Allowance for uncollectible accounts receivable | $ 9.6 | $ 25.7 | $ - | $ 20.9 (a) | $ 14.4 |
| Accrued mercury-related costs | 37.0 | - | - | 13.6 (c) | 23.4 |
| 2001 | | | | | |
| Allowance for uncollectible accounts receivable | $ 13.4 | $ 23.3 | $ - | $ 27.1 (a) | $ 9.6 |
| Accrued mercury-related costs | 78.0 | - | - | 41.0 (c) | 37.0 |

(a) Accounts receivable written off, net of recoveries.
(b) Expenditures.
(c) Expenditures and reserve reduction to reflect new estimate.

## Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Nicor Gas Company

Date March 1, 2004

/s/ RICHARD L. HAWLEY
Richard L. Hawley
Executive Vice President and
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 1, 2004.

| Signature | Title |
|---|---|
| /s/ RUSS M. STROBEL<br>Russ M. Strobel<br>(Principal Executive Officer) | President and Chief Executive Officer |
| /s/ RICHARD L. HAWLEY<br>Richard L. Hawley<br>(Principal Financial Officer) | Executive Vice President and Chief Financial Officer |
| /s/ JEFFREY L. METZ<br>Jeffrey L. Metz<br>(Principal Accounting Officer) | Vice President and Controller |
| ROBERT M. BEAVERS, JR.* | Director |
| BRUCE P. BICKNER* | Director |
| JOHN H. BIRDSALL, III* | Director |
| THOMAS A. DONAHOE* | Director |
| THOMAS L. FISHER* | Director |
| JOHN E. JONES* | Director |
| DENNIS J. KELLER* | Director |
| WILLIAM A. OSBORN* | Director |
| JOHN RAU* | Director |
| JOHN F. RIORDAN* | Director |
| PATRICIA A. WIER* | Director |

* By /s/ JEFFREY L. METZ
Jeffrey L. Metz
(Attorney-in-fact)

## Supplemental Information

Supplemental Information to be Furnished With Reports Filed Pursuant to Section 15(d) of the Act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act:

No annual report or proxy material has been sent to security holders as Nicor Gas is a wholly owned subsidiary of Nicor Inc.

## Exhibit Index

| Exhibit Number | Description of Document |
|---|---|
| 3.01 | * Articles of Incorporation of the company. (File No. 1-7296, Form 10-K for 1980, Exhibit 3-01.) |
| 3.02 | * Amendment to Articles of Incorporation of the company. (File No. 1-7296, Form 10-Q for June 1994, Exhibit 3.01.) |
| 3.03 | * By-Laws of the company as amended by the company's Board of Directors on January 15, 2004. (File No. 1-7296, Form 10-K for 2003, Exhibit 3.03.) |
| 4.01 | * Indenture of Commonwealth Edison Company to Continental Illinois National Bank and Trust Company of Chicago, Trustee, dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 1995, Exhibit 4.01.) |
| 4.02 | * Indenture of Adoption of the company to Continental Illinois National Bank and Trust Company of Chicago, Trustee, dated February 9, 1954. (File No. 1-7296, Form 10-K for 1995, Exhibit 4.02.) |
| 4.03 | * Supplemental Indenture, dated February 15, 1998, of the company to Harris Trust and Savings Bank, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 1997, Exhibit 4.19.) |
| 4.04 | * Supplemental Indenture, dated February 1, 1999, of the company to Harris Trust and Savings Bank, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 1998, Exhibit 4.19.) |
| 4.05 | * Supplemental Indenture, dated February 1, 2001, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 2000, Exhibit 4.17.) |
| 4.06 | * Supplemental Indenture, dated May 15, 2001, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-Q for June 2001, Exhibit 4.01.) |
| 4.07 | * Supplemental Indenture, dated August 15, 2001, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-Q for September 2001, Exhibit 4.01.) |
| 4.08 | * Supplemental Indenture, dated December 15, 2001, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 2001, Exhibit 4.20.) |
| 4.09 | * Supplemental Indenture, dated December 1, 2003, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 2003, Exhibit 4.09.) |

Exhibit Index (concluded)

| Exhibit Number | Description of Document |
|---|---|
| 4.10 | * Supplemental Indenture, dated December 1, 2003, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 2003, Exhibit 4.10.) |
| 4.11 | * Supplemental Indenture, dated December 1, 2003, of the company to BNY Midwest Trust Company, Trustee, under Indenture dated as of January 1, 1954. (File No. 1-7296, Form 10-K for 2003, Exhibit 4.11.) |
| 12.01 | * Computation of Consolidated Ratio of Earnings to Fixed Charges. (File No. 1-7296, Form 10-K for 2003, Exhibit 12.01.) |
| 18.01 | * Preferability Letter regarding Change in Accounting of Interim Depreciation. (File No. 1-7296, Form 10-Q for March 2003, Exhibit 18.01.) |
| 23.01 | Independent Auditors' Consent. |
| 24.01 | * Powers of Attorney. (File No. 1-7296, Form 10-K for 2003, Exhibit 24.01.) |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification. |
| 32.1 | Section 1350 Certification. |
| 32.2 | Section 1350 Certification. |

* These exhibits have been previously filed with the Securities and Exchange Commission as exhibits to registration statements or to other filings with the Commission and are incorporated herein as exhibits by reference. The file number and exhibit number of each such exhibit, where applicable, are stated, in parentheses, in the description of such exhibit.

Upon written request, the company will furnish free of charge a copy of any exhibit. Requests should be sent to Investor Relations at the corporate headquarters.

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Nicor Gas Company
Form 10-K/A
Exhibit 23.01

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-65486 of Northern Illinois Gas Company on Form S-3 of our report (which expresses an unqualified opinion and includes an explanatory paragraph related to a change in method of classifying future removal costs of utility property, plant and equipment, described in Note 2 and an explanatory paragraph related to the reclassification of accrued removal costs, also described in Note 2), dated February 19, 2004, (March 1, 2004 as to the fourth paragraph of Note 2 and the fifth and sixth sentences of the eighth paragraph of Note 15), appearing in this Annual Report on Form 10-K/A of Northern Illinois Gas Company for the year ended December 31, 2003.

DELOITTE & TOUCHE LLP

Chicago, Illinois

March 1, 2004

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Nicor Gas Company
Form 10-K/A
Exhibit 31.1

CERTIFICATION

I, Russ M. Strobel, President and Chief Executive Officer of Nicor Gas Company, certify that:

1) I have reviewed this annual report on Form 10-K/A of Nicor Gas Company;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 1, 2004

/s/ RUSS M. STROBEL
Russ M. Strobel
President and
Chief Executive Officer

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Nicor Gas Company
Form 10-K/A
Exhibit 31.2

CERTIFICATION

I, Richard L. Hawley, Executive Vice President and Chief Financial Officer of Nicor Gas Company, certify that:

1) I have reviewed this annual report on Form 10-K/A of Nicor Gas Company;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date March 1, 2004

/s/ RICHARD L. HAWLEY

Richard L. Hawley
Executive Vice President and
Chief Financial Officer

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Nicor Gas Company
Form 10-K/A
Exhibit 32.1

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Nicor Gas Company (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 10-K/A of the Company for the fiscal year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 1, 2004

/s/ RUSS M. STROBEL

Russ M. Strobel
President and
Chief Executive Officer

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Nicor Gas Company
Form 10-K/A
Exhibit 32.2

CERTIFICATION

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Nicor Gas Company (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the accompanying Annual Report on Form 10-K/A of the Company for the fiscal year ended December 31, 2003 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 1, 2004

/s/ RICHARD L. HAWLEY
Richard L. Hawley
Executive Vice President and
Chief Financial Officer

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**SECTION 285.305**
**General Information Requirements Applicable for All Utilities Subject to this Part**
Utility: Northern Illinois Gas Company
d/b/a Nicor Gas Company

## Subpart (n)

# FORM 8-K

## NICOR INC - gas

**Filed: October 31, 2003 (period: September 30, 2003)**

Report of unscheduled material events or corporate changes. e.g acquisition bankruptcy resignation

# Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 30, 2003

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification Number |
|---|---|---|
| 1-7297 | Nicor Inc.<br>(An Illinois Corporation)<br>1844 Ferry Road<br>Naperville, Illinois 60563-9600<br>(630) 305-9500 | 36-2855175 |

## Item 7. Financial Statements and Exhibits

The following is furnished as an exhibit to this report.

| Exhibit Number | Description |
|---|---|
| 99.1 | Press release of Nicor Inc. issued October 30, 2003. |

## Item 12. Results of Operations and Financial Condition

The information in this Item is furnished to, but not filed with, the Securities and Exchange Commission solely under Item 12 of Form 8-K, "Results of Operations and Financial Condition."

On October 30, 2003, Nicor Inc. issued a press release announcing financial results for the quarter ended September 30, 2003. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Nicor Inc.

Date October 30, 2003

/s/ KATHLEEN L. HALLORAN

Kathleen L. Halloran
Executive Vice President
Finance and Administration

Exhibit Index

| Exhibit Number | Description of Document |
| --- | --- |
| 99.1 | Press release of Nicor Inc. issued October 30, 2003. |

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NEWS RELEASE

FOR IMMEDIATE RELEASE
October 30, 2003

FOR MORE INFORMATION
Contact: Mark Knox, re: N-900
630 305-9500, ext. 2529

NICOR ANNOUNCES THIRD QUARTER EARNINGS AND REVISES 2003 EARNINGS OUTLOOK

Naperville, IL - Nicor Inc. (NYSE: GAS) today reported preliminary third quarter 2003 net income, operating income and diluted earnings per common share of $0.5 million, $4.2 million and $.01, respectively. This compares to third quarter 2002 net income, operating income and diluted earnings per common share of $29.8 million, $53.6 million and $.67, respectively. In 2003, the gas distribution segment changed its interim depreciation allocation method. Had gas distribution depreciation been determined using the same method as in 2003, third quarter 2002 consolidated net income, operating income and diluted earnings per common share, would have been $19.3 million, $36.2 million and $.44, respectively. Although this change has contributed to significant quarter to-quarter earnings variances, it will not have any impact on the full year comparison between 2002 and 2003.

Other major factors contributing to decreased earnings per share results for the third quarter of 2003 include the absence of about $20 million of pretax mercury-related recoveries that were reported in the third quarter of last year, higher operating costs in the company's gas distribution segment, and lower operating results in the company's other businesses. Partially offsetting these negative factors was a pretax gain from the wind-down of the company's 50-percent-owned retail energy marketing joint venture, Nicor Energy.

For the nine months ended September 30, 2003 preliminary net income, operating income and diluted earnings per common share were $70.2 million, $124.4 million and $1.59, respectively. This compares to net income, operating income and diluted earnings per common share for the same 2002 period of $88.8 million, $162.3 million and $2.00, respectively. Had gas distribution depreciation been determined using the same interim allocation method as in 2003, consolidated net income, operating income and diluted earnings per common share for the nine months ended September 30, 2002, would have been $84.5 million, $155.3 million and $1.90, respectively.

Lower earnings per share for the nine-months-ended period are primarily attributable to decreased operating results in the company's gas distribution segment and other energy ventures businesses. Partially offsetting these negative factors were gains from the wind-down of Nicor Energy and higher operating results in the company's shipping segment. The lower operating results in the company's gas distribution segment were due to a number of factors, most significantly higher operating costs and the change in the interim depreciation allocation method.

"Increasing operating costs, including the effects of high natural gas costs, at our utility business continue to be the biggest factors impacting our 2003 operating results," said Thomas L. Fisher, chairman and chief executive officer. "Maintaining the earnings level in our utility business over the next few years will be a key challenge. We remain committed to our business strategies and focused on improving overall business results. We continue to be pleased with the solid performance in our shipping segment this year and the progress we are making in positioning our retail energy-related service businesses for the future."

More details regarding 2003 preliminary third quarter and the nine-month period financial results compared to 2002 follow:

o Gas distribution operating income decreased in the third quarter to $4.4 million from $48.4 million in 2002. The quarter-to-quarter decline is due primarily to:
-- The absence of about $20 million of mercury-related recoveries reported in the third quarter of 2002;
-- Higher depreciation expense of about $17 million in the third quarter 2003 related to the new method for allocating depreciation expense to interim periods; and
-- Other factors, including lower Chicago Hub results; decreased industrial customer deliveries, particularly for power generation; and higher operating costs, such as lower pension returns, and higher costs relating to bad debt, insurance, health care, ongoing depreciation expense beyond the change in the interim allocation method, and company use of natural gas.

For the nine months ended September 30, 2003, operating income decreased to $115.8 million, from $150.1 million in 2002. The year-to-date decline is due primarily to:
-- Higher depreciation expense of about $ 7 million due to the new interim depreciation expense allocation method;
-- About $25 million in higher operating and maintenance costs, similar to those that impacted the quarter, and increased depreciation expense beyond the change in the interim allocation method; and
-- Other factors, including lower gains on property sales and mercury-related recoveries, lower Chicago Hub results and decreased industrial customer deliveries, particularly for power generation, which more than offset the impact of colder weather.

- Shipping operating income for the third quarter of 2003 decreased to $3 million from $4.4 million in 2002 on lower volumes and lower average rates, partially offset by lower operating costs. Quarter-to-quarter volume declines were due mainly to economic conditions. For the nine months ended September 30, 2003, operating income increased to $13.6 million from $12.4 million in 2002 on higher volumes shipped and higher average rates. Year-to-date volume improvements were due primarily to an acquisition made in April 2002.

- Operating income (loss) for the company's other energy ventures for the third quarter and nine month 2003 periods were ($0.7) million and $2.3 million, respectively, compared to $2.8 million and $4.9 million, respectively, in 2002. The decline for both periods was due primarily to lower operating results in the company's retail energy-related products and services business and wholesale natural gas marketing business, partially offset by lower operating losses from the company's former energy system development activities.

  For the year, other energy ventures operating results have been significantly impacted by a previously announced required change in accounting method at Nicor Enerchange, the company's wholesale natural gas marketing business. The accounting change does not alter the economic results of the business, but does create ongoing timing differences for when gains and losses are recognized, and will cause variability in period-to-period results. The new accounting method adopted January 1, 2003 resulted in a $4.5 million cumulative effect loss, net of taxes, in the first quarter of 2003. This cumulative effect adjustment removed all previously recorded unrealized mark-to-market gains on natural gas inventory and non-derivative energy-related contracts for storage and transportation services. Most of these gains were recognized by Nicor Enerchange and reported in other energy venture's operating income in the first quarter of 2003.

- The company recorded higher results in 2003 for the quarter and nine-month ended periods from its equity investment in Nicor Energy. The company reported losses from Nicor Energy in 2002 for both the third quarter and year-to-date periods. The company wrote down its equity investment in the 50-percent-owned joint venture to zero in the third quarter of 2002. As a result of Nicor Energy's successful efforts to dispose of its assets in 2003, the company received cash distributions from the joint venture and recorded pretax gains of $3.3 million and $8.9 million, respectively for the 2003 third quarter and nine-month ended periods. Future income from the wind-down of Nicor Energy is expected to be minimal.

## 2003 Earnings Guidance

The company further announced that it has lowered its previously provided 2003 annual diluted earnings per common share estimate to be in the range of $2.45 to $2.55. This estimate includes reported results for the nine-month-ended period and assumes lower than anticipated operating results in the gas distribution segment due mainly to higher provisions for bad debts. It also reflects the variations in the timing of recognizing revenues and expenses at Nicor Enerchange due to the new accounting method.

The estimate also assumes, among other things, normal weather for the remainder of the year and no impacts associated with the Illinois Commerce Commission's PBR/PGA review, and no further impact from mercury-related activities or other contingencies. While these items could affect 2003 earnings, they are not estimable. The company also indicated that due to the new accounting method at Nicor Enerchange there will be some variability in period-to-period results.

## Conference Call

As previously announced, the company will be holding a conference call to discuss its third quarter financial results and 2003 outlook. The conference call will be held on Friday, October 31, 2003 at 8:00 a.m. central, 9:00 a.m. eastern time.

To hear the conference call live, please logon to Nicor's corporate website at www.nicor.com, choose "Investor" and then select the webcast icon on the Overview page. A replay of the call will be available until 5:00 p.m. central time, Friday, November 14, 2003. To access the recording, call 1-888-286-8010, or 617-801-6888 for callers outside the United States, and enter reservation number 82262109. The call will also be archived on Nicor's corporate website for 90 days.

Nicor Inc. (NYSE: GAS) is a holding company and is a member of the S&P 500. Its principal businesses are Nicor Gas, one of the nation's largest natural gas distribution companies, and Tropical Shipping, a containerized shipping business serving the Caribbean region. Nicor also owns and has equity interests in several energy-related businesses. For more information, visit the Nicor website at www.nicor.com.

Caution Concerning Forward-Looking Statements

This document includes certain forward-looking statements about the earnings expectations of Nicor Inc., its subsidiaries and affiliates. Although Nicor believes these statements are based on reasonable assumptions, actual results may vary materially from stated expectations. Such forward-looking statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "planned," "potential," "should," "will," "would," or similar phrases. Actual results may differ materially from those indicated in the company's forward-looking statements due to the direct or indirect effects of the results of legal contingencies (including litigation) and the resolution of those issues, including the effects of an ICC review, and undue reliance should not be placed on such statements. Other factors that could cause materially different results include, but are not limited to, weather conditions; natural gas and fuel prices; fair value accounting adjustments; health care costs; insurance costs; legal costs; borrowing needs; interest rates; credit conditions; economic and market conditions; Caribbean tourism; energy conservation; legislative and regulatory actions, results, or adjustments; additional adjustments related to Nicor's retail energy marketing joint venture; asset sales; significant unplanned capital needs; future mercury-related charges or credits; changes in accounting principles; performance of major suppliers and contractors; and acts of terrorism. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. Nicor undertakes no obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this release.

Nicor Inc.

PRELIMINARY CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited (millions, except per share data)

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Operating revenues | $ 294.8 | $ 252.4 | $ 1,918.9 | $ 1,192.6 |
| Operating expenses | | | | |
| Gas distribution | | | | |
| Cost of gas | 117.6 | 65.4 | 1,221.5 | 527.3 |
| Operating and maintenance | 51.4 | 48.2 | 164.5 | 143.4 |
| Depreciation | 35.6 | 17.0 | 107.6 | 96.2 |
| Taxes, other than income taxes | 14.4 | 13.4 | 108.4 | 77.1 |
| Mercury-related costs (recoveries) | - | (19.7) | (17.8) | (19.5) |
| Property sale (gains) losses | - | - | (.4) | (3.4) |
| Shipping | 60.8 | 62.2 | 183.8 | 179.2 |
| All other | 10.8 | 12.3 | 26.9 | 30.0 |
| | 290.6 | 198.8 | 1,794.5 | 1,030.3 |
| Operating income | 4.2 | 53.6 | 124.4 | 162.3 |
| Equity investment income (loss), net | 4.8 | (2.6) | 12.9 | (7.5) |
| Other income (expense), net | .4 | .7 | 1.5 | 2.5 |
| Interest expense, net of amounts capitalized | 8.8 | 9.7 | 27.8 | 28.4 |
| Income before income taxes and cumulative effect of accounting change | .6 | 42.0 | 111.0 | 128.9 |
| Income tax expense | .1 | 12.2 | 36.3 | 40.1 |
| Income before cumulative effect of accounting change | .5 | 29.8 | 74.7 | 88.8 |
| Cumulative effect of accounting change, net of $3.0 income tax benefit | - | - | (4.5) | - |
| Net income | .5 | 29.8 | 70.2 | 88.8 |
| Dividends on preferred stock | - | .1 | - | .3 |
| Earnings applicable to common stock | $ .5 | $ 29.7 | $ 70.2 | $ 88.5 |
| Average shares of common stock outstanding | | | | |
| Basic | 44.0 | 44.0 | 44.0 | 44.2 |
| Diluted | 44.2 | 44.1 | 44.2 | 44.4 |

| | | | | |
|---|---|---|---|---|
| Earnings per average share of common stock | | | | |
| Basic | | | | |
| Before cumulative effect of accounting change | $ .01 | $ .68 | $ 1.69 | $ 2.01 |
| Cumulative effect of accounting change, net of tax | - | - | (.10) | - |
| Basic earnings per share | $ .01 | $ .68 | $ 1.59 | $ 2.01 |
| Diluted | | | | |
| Before cumulative effect of accounting change | $ .01 | $ .67 | $ 1.69 | $ 2.00 |
| Cumulative effect of accounting change, net of tax | - | - | (.10) | - |
| Diluted earnings per share | $ .01 | $ .67 | $ 1.59 | $ 2.00 |

Nicor Inc.

PRELIMINARY FINANCIAL HIGHLIGHTS
Unaudited (millions, except per share data)

| | Three months ended Sept. 30 | | Nine months ended Sept. 30 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| **Operating revenues** | | | | |
| Gas distribution | $ 223.4 | $ 172.7 | $ 1,699.6 | $ 971.2 |
| Shipping | 63.8 | 66.6 | 197.4 | 191.6 |
| Other energy ventures | 15.1 | 13.1 | 53.7 | 37.5 |
| Corporate and eliminations | (7.5) | - | (31.8) | (7.7) |
| | $ 294.8 | $ 252.4 | $ 1,918.9 | $ 1,192.6 |
| **Operating income (loss)** | | | | |
| Gas distribution | $ 4.4 | $ 48.4 | $ 115.8 | $ 150.1 |
| Shipping | 3.0 | 4.4 | 13.6 | 12.4 |
| Other energy ventures | (.7) | 2.8 | 2.3 | 4.9 |
| Corporate and eliminations | (2.5) | (2.0) | (7.3) | (5.1) |
| | $ 4.2 | $ 53.6 | $ 124.4 | $ 162.3 |
| Income before cumulative effect of accounting change | $ .5 | $ 29.8 | $ 74.7 | $ 88.8 |
| Cumulative effect of accounting change, net of $3.0 income tax benefit | - | - | (4.5) | - |
| Net income | $ .5 | $ 29.8 | $ 70.2 | $ 88.8 |
| Earnings applicable to common stock | $ .5 | $ 29.7 | $ 70.2 | $ 88.5 |
| Average shares of common stock outstanding | | | | |
| Basic | 44.0 | 44.0 | 44.0 | 44.2 |
| Diluted | 44.2 | 44.1 | 44.2 | 44.4 |
| Earnings per average share of common stock | | | | |
| Basic | | | | |
| Before cumulative effect of accounting change | $ .01 | $ .68 | $ 1.69 | $ 2.01 |
| Cumulative effect of accounting change, net of tax | - | - | (.10) | - |
| Basic earnings per share | $ .01 | $ .68 | $ 1.59 | $ 2.01 |
| Diluted | | | | |
| Before cumulative effect of accounting change | $ .01 | $ .67 | $ 1.69 | $ 2.00 |
| Cumulative effect of accounting change, net of tax | - | - | (.10) | - |
| Diluted earnings per share | $ .01 | $ .67 | $ 1.59 | $ 2.00 |

Nicor Inc.
Gas Distribution
Unaudited

Preliminary Operating Statistics

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Operating revenues (millions) | | | | |
| Sales - Residential | $ 142.0 | $ 100.8 | $1,158.2 | $ 620.1 |
| Commercial | 31.2 | 20.3 | 256.2 | 120.1 |
| Industrial | 4.3 | 2.1 | 37.7 | 19.7 |
| | 177.5 | 123.2 | 1,452.1 | 759.9 |
| Transportation | | | | |
| - Residential | 3.9 | 4.0 | 15.7 | 10.0 |
| Commercial | 11.0 | 12.2 | 51.5 | 53.9 |
| Industrial | 11.1 | 13.7 | 32.5 | 35.8 |
| Other | 1.3 | 1.0 | 10.4 | 5.5 |
| | 27.3 | 30.9 | 110.1 | 105.2 |
| Other revenues - Revenue taxes | 11.4 | 9.1 | 98.3 | 66.0 |

| | | | | |
|---|---|---|---|---|
| Environmental cost recovery | 2.4 | 1.7 | 22.1 | 17.1 |
| Chicago Hub | 1.1 | 3.6 | 4.6 | 10.1 |
| Weather hedge results | - | .7 | (3.5) | 1.3 |
| Other | 3.7 | 3.5 | 15.9 | 11.6 |
| | 18.6 | 18.6 | 137.4 | 106.1 |
| | $ 223.4 | $ 172.7 | $1,699.6 | $ 971.2 |
| Deliveries (Bcf) | | | | |
| Sales - Residential | 14.3 | 13.2 | 150.3 | 139.0 |
| Commercial | 3.5 | 3.0 | 33.2 | 26.7 |
| Industrial | .5 | .3 | 5.1 | 4.8 |
| | 18.3 | 16.5 | 188.6 | 170.5 |
| Transportation - Residential | 1.0 | 1.1 | 11.2 | 5.6 |
| Commercial | 8.7 | 14.1 | 61.8 | 68.4 |
| Industrial | 27.8 | 42.6 | 89.8 | 116.6 |
| | 37.5 | 57.8 | 162.8 | 190.6 |
| | 55.8 | 74.3 | 351.4 | 361.1 |
| Degree days | 97 | 33 | 4,094 | 3,530 |
| Colder (warmer) than normal | | | | |
| Degree days | 26 | (38) | 267 | (297) |
| Percent | 37 | (54) | 7 | (8) |
| Average gas cost per Mcf sold | $ 6.31 | $ 3.84 | $ 6.41 | $ 3.04 |
| Customers at September 30 (thousands) | | | | |
| Sales - Residential | 1,726.9 | 1,701.5 | | |
| Commercial | 111.4 | 105.0 | | |
| Industrial | 7.0 | 6.7 | | |
| | 1,845.3 | 1,813.2 | | |
| Transportation - Residential | 138.9 | 135.2 | | |
| Commercial | 58.3 | 63.6 | | |
| Industrial | 6.3 | 6.8 | | |
| | 203.5 | 205.6 | | |
| | 2,048.8 | 2,018.8 | | |

Nicor Inc.
Shipping
Unaudited

Preliminary Operating Statistics

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Operating revenues (millions) | $ 63.8 | $ 66.6 | $ 197.4 | $ 191.6 |
| Operating income (millions) | $ 3.0 | $ 4.4 | $ 13.6 | $ 12.4 |
| Twenty-foot equivalent units (TEU) shipped (thousands) | 42.5 | 43.9 | 127.4 | 126.7 |
| Revenue per TEU | $ 1,484 | $ 1,515 | $ 1,534 | $ 1,511 |
| Vessels operated | 16 | 17 | | |

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# FORM 8-K

## NICOR INC - gas

**Filed: November 21, 2003 (period: November 21, 2003)**

Report of unscheduled material events or corporate changes. e.g acquisition bankruptcy resignation

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 21, 2003

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification Number |
|---|---|---|
| 1-7297 | Nicor Inc.<br>(An Illinois Corporation)<br>1844 Ferry Road<br>Naperville, Illinois 60563-9600<br>(630) 305-9500 | 36-2855175 |
| 1-7296 | Northern Illinois Gas Company<br>(Doing business as Nicor Gas Company)<br>(An Illinois Corporation)<br>1844 Ferry Road<br>Naperville, Illinois 60563-9600<br>(630) 983-8888 | 36-2863847 |

Item 5. Other Events and Regulation FD Disclosure

The following is filed as an exhibit to this report.

| Exhibit Number | Description |
|---|---|
| 99.1 | Press release of Nicor Inc. issued November 21, 2003. |



Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

Nicor Inc.

Date November 21, 2003

/s/ KATHLEEN L. HALLORAN

Kathleen L. Halloran
Executive Vice President
Finance and Administration

Nicor Gas Company

Date November 21, 2003

/s/ KATHLEEN L. HALLORAN

Kathleen L. Halloran
Executive Vice President
Finance and Administration

Exhibit Index

| Exhibit Number | Description of Document |
| --- | --- |
| 99.1 | Press release of Nicor Inc. issued November 21, 2003. |

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Nicor Inc.
Nicor Gas Company
Form 8-K
Exhibit 99.1

NEWS RELEASE

FOR IMMEDIATE RELEASE
November 21, 2003

FOR MORE INFORMATION
Contact: Mark Knox, re: N-903
630 305-9500, ext. 2529

NICOR ANNOUNCES KEY EXECUTIVE APPOINTMENTS

Naperville, IL - Nicor Inc. (NYSE: GAS) today announced that its Board of Directors has elected Russ Strobel to chief executive officer of Nicor Gas and Richard Hawley as chief financial officer of Nicor Inc. and Nicor Gas.

Strobel, currently president of Nicor Inc. and Nicor Gas, will now assume the additional responsibilities of chief executive officer of the company's largest entity, Nicor Gas. Strobel will continue to report to Nicor Inc.'s chairman and chief executive officer, Thomas Fisher, who previously held the CEO title at Nicor Gas.

"Russ has provided leadership, vision and sound business judgment that will be instrumental in the future growth of our companies," said Fisher. "I am pleased to make this announcement and firmly believe this appointment will benefit our shareholders, our customers and our employees."



Strobel began his career with Nicor in December 2000 as senior vice president, general counsel and secretary. In February 2002, Strobel became executive vice president with the additional responsibility for diversified ventures. In October of the same year, he was promoted to president of Nicor Inc. and Nicor Gas.

Prior to Nicor, he was a partner with the law firms of Jenner & Block, and Friedman & Koven. He received a Bachelor of Arts degree from Northwestern University and earned his juris doctor, magna cum laude from the University of Illinois, where he was elected to the Order of the Coif.

New Chief Financial Officer Joins Nicor

Nicor Inc. also announced today that effective December 8, 2003, Richard Hawley will join the company as executive vice president and chief financial officer of Nicor Inc. and Nicor Gas. Hawley will be directly responsible for all of the company's finance, accounting, treasury, investor relations and information technology activities. Hawley will report to Strobel. Kathy Halloran, executive vice president, who formerly held these responsibilities, will now focus on her new role as chief risk officer reporting to Fisher.

"I am delighted that Rick will be joining Nicor's management team," said Strobel. "Rick brings a tremendous amount of financial expertise and industry experience, both from his prior roles as partner in a major accounting firm and as the CFO for a publicly-traded energy company. Rick will play a critical role in developing and executing our business strategies and providing the highest degree of integrity in our financial reporting.



Hawley, 54, was formerly the chief financial officer for Puget Energy, Inc., Bellevue, Washington and its natural gas and electricity subsidiary Puget Sound Energy, Inc. Previously, Hawley spent 25 years at PricewaterhouseCoopers, where he held various positions, including partner, responsible for serving clients in a broad range of industries, notably large publicly-held companies in the utility sector.

"I am very excited about the opportunity to work with the management team of Nicor and honored to be entrusted with these important responsibilities. I look forward to joining the leadership of the organization and the opportunity to influence the company's future direction," Hawley said.

Hawley holds a Bachelor of Arts degree, summa cum laude, in business administration from the University of Washington. He is also a certified public accountant.

A summary of the business unit realignments resulting from today's announcements is as follows:

Rocco D'Alessandro, senior vice president operations for Nicor Gas, which includes customer services, natural gas distribution and supply, engineering and technical services and measurement, formerly reporting to Fisher, will now report to Strobel.

Kathy Halloran, executive vice president and chief risk officer, who formerly reported to Strobel will now report to Fisher. As chief risk officer, Halloran will continue developing and implementing an enterprise-wide, integrated risk management program for all aspects of the company. Halloran will also be responsible for internal auditing, which formerly reported directly to Fisher.

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Key officers directly under Fisher's direction in addition to Strobel and Halloran are Claudia Colalillo, senior vice president human resources and corporate communications, and Rick Murrell, president and chief executive officer, Tropical Shipping.

In addition to Hawley and D'Alessandro, key officers reporting to Strobel are Daniel Dodge, senior vice president diversified ventures and corporate planning, and Paul Gracey, Jr., vice president, general counsel and secretary.

Key officers directly under Hawley's direction are George Behrens, vice president administration and treasurer, Jeffery Metz, vice president and controller and Barbara Zeller, vice president information services.

All other indirect officer's reporting relationships within the company remain unchanged.

Nicor Inc. (NYSE: GAS) is a holding company and is a member of the S&P 500. Its principal businesses are Nicor Gas, one of the nation's largest natural gas distribution companies, and Tropical Shipping, a containerized shipping business serving the Caribbean region. Nicor also owns and has equity interests in several energy-related businesses. For more information, visit the Nicor website at www.nicor.com.

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Caution Concerning Forward-Looking Statements
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